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Competitive Power of Companies and Industries: A Methodical Approach to Evaluation

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Abstract

Background/Objectives: This article justifies a methodical approach and develops a model to evaluate competitive power of companies and industries for optimum allocation of corporate resources for monitoring, governmental program measures, stimulating growth of competitive positions of individual industries and economy as a whole. **Methods:** The basic theory of corporate function is a methodical ground for competitive power of companies and industries. Resource efficiency is presented by production, financial and investment indicators. A multiplicative model for companies and industries' competitive power evaluation and static and dynamic alternatives have been provided. This model has been appraised using Russian processing industry as an example, based on the statistical database of the Russian Federation Federal State Statistics Service. **Findings:** This approach differs in understanding the competitive power of companies and industries as a way of optimized utilization of national economic resources. For the state, this means a tool of financial stimulation of industrial areas of high competitive power. The suggested model of competitive power evaluation allows performing industrial diagnosis of utilization of production, financial and investment resources of a company. Identification of company's positions and comparison of resource efficiency provide the basis for distinguishing between the impact of internal and external conditions on any changes in positions of the company and industry as a whole over the short and long term. Applying the suggested method one can determine causes of any shifts in companies' competitive advantages and discover resource limitations of the competitive power. An integral competitive power indicator for companies and industries provides a basis for creating a monitoring database of competitive power ratings for industries, enhancing transparency of national companies' success, as compared with similar foreign industrial companies; governmental support of the best companies on a competitive basis. **Improvements:** The article broadens importance of the resource-oriented approach to evaluation of competitive power. The suggested evaluation model can be used as a tool for stimulating best companies and industries for governmental regulations of the economy's competitive power.

Keywords: Competitive Advantages, Competitive Power, Competitive Power Evaluation Model for Companies and Industries, Economy Resources

1. Introduction

Current situation in the RF is characterized by intensified foreign economic instability, reduced periods of cyclic fluctuations and intensified crisis processes that determine that necessity of identifying factors and limitations for increasing competitive power of companies and industries. Implementation of a long-term stable development strategy for a real sector of the Russian economy, with account for the achieved degree of industrial revolution, determines the necessity of the government participating actively in regulating and providing sector-oriented targeted support of development of competitive industries. Accordingly, we are in need of advancements in theoretical and methodical research to improve justification of applied managerial solutions.

The key problem of economy of any country is reasonable allocation and utilization of the available resources and it is more relevant for developing countries including Russia. A real increase in the competitive power

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of companies and economy sectors will allow for optimum allocation of integral resources, and while the RF is included in the international trade system, going to a new level of production and trade opportunities of the country and increasing profit and consumption of the public and improving quality of life as a result.

Analysis of economic publications in theoretical discussion and applied methods of evaluation of competitive power of companies and industries of the national economy allows for the conclusion that attention is traditionally focused on presenting the competitive power as a dynamic process with various factors driving it. Accordingly, a broad variety of economic indexes is suggested for the evaluation. Systematization of the available methodical solutions suggests that the set of valuation multiples and integrated indexes and ratings illustrates for the most part features of economic and mathematical tools, while the original target, which is the purpose and interested parties of the evaluation and recipient of benefits is lost. As a result, the values obtained are of rather informative and instrumental, however, not applied nature.

Therefore, let us state our objectives: The competitive power of companies and industries is a way for the economy to get to a new level of utilization of economic resources and regulatory function of the government involves creating a mechanism to stimulate this process under the developing market conditions and imperfect self-regulatory mechanism.

Competitive power as a way of maintaining and improving positions in competition is the broadest and most commonly used definition. The specific meaning of competitive power as the basis of a methodology and ground for the result (let us clarify one more time) is determined by the analysis objective.

Competitive power of companies and industries can be determined in the modern Russian economy as a capability of functioning, maintaining and expanding activity on the basis of effective utilization of the available resources under the conditions of external and internal competition. This gives advantages for internal production and foreign trade and economic relations (the issue of performance specifics as a product or service that is determined by the market by default is beyond the scope. Evaluation of the competitive power must primarily be a diagnostic tool for the progress of industrial structures and economy segments on their way of reasonable utilization of resources. Let us draw attention to the fact that the competitive power under the conditions of competition at the domestic market and closed economy stimulates reasonable utilization of resources at a local level (an individual national economy, regardless of its positioning on the global scale) and the completion with view to open economy (with international companies at the domestic market or export activity carried out) allows for optimized utilization of resources with due consideration of international efficiency standards. The Russian strategy relies on the fact that achievement of the best resource utilization practices requires determination of industrial areas of competitive power growth even under the current instable economic conditions and stimulation of such areas via inclusion in the governmental programs is a certain stage of purpose accomplishment.

2. Concept Headings

Review of traditional competitive power evaluation methods allowed us to mark out dominating areas: 1. Independent evaluation of company's competitive power according to firm's market share, i.e. the hierarchy of market result achieved at industry-based markets; 2. Evaluation from the point of view of competitive power of ultimate performance of the company, i.e. product released, which is considered to be a success indicator; 3. Efficiency evaluation of processes that describe company's activity as components of its competitive power; 4. Focusing attention on resources that determine leading positions; 5. A synthetic approach that aggregates all areas, which is expressed in term of quantity in development of an integral index that combines all specifications of firm's activity.

The logic of all the above approaches to competitive power evaluation fits into a transmission chain as follows: "Resources - processes - outcome (internal and external within a certain product, service, market share etc.)". The application-oriented question is the fundamental principle, subject matter of monitoring and stimulating.

From the point of view of regulation entity that makes decisions on industry support and inclusion into governmental programs, selection of a criterion that focuses on the cause of competitive power of companies and industries and answers the question about the primary thing to be stimulated for enhancing production capabilities of the economy is principal. Gradual mastery of best competitive practices in utilizing limited resources is an actual way of implementation of import phase out policy and

enhancement of national competitive power of an actual economy sector.

Clear own position (priority given to overcoming the problem of unreasonable utilization of resources by levels, such as the company, industry and economy as a whole) allows us to argue for insufficiency of the above methodical approaches.

According to the first approach (publications by Russian economists[1]), data on sales volumes and market share growth are used. It appears that this method does not provide a clear answer as to the sources that induce ultimate performance and position of a firm. Recognition of firms that take up a great share as competitive ones may very well mean that the size of the company, the presence of scale effect or monopoly powers are determinant to understanding the reasons of competitive power. The status of competitive is assigned automatically with this approach to large companies which conflicts with reality.

Dominant competitive power evaluation based on the analysis of market position of a firm leaves behind such circumstances as availability of specific (unique) resources and differentiated range of product, existing brand of the firm, holding of patents and innovations. Thus, General Motors took up 45% of the industry-based market in 1940 and 7.5% in 2010[2] which is due to entry to the American market of Japanese and South-Korean manufactures that can be described by a whole set of production, product and market advantages, which are not determined solely by the scale effect.

Firms with the large market share not so rarely take their positions due to monopolization of advantages, existing barriers, application of discriminating pricing strategies. At the same time according to current practice and theoretical research[3], there is an optimum market share with the firm striving to achieve such share. At the same time, one should consider the fact that unti-monopoly governmental requirements regulate the size of market share, which gets in the way of applying this indicator as a measure of firm's competitive power. Pursuance of market position stabilization and coordination of competitive cooperation by large companies expresses itself in a low variation of their share at the industry-based market over a short time. A low coefficient of variation of company's market share that was calculated for 3 years for ten largest global car makers is indicative of market share stability (see Table 1).

Table 1. Coefficient of variation of sales share for leading car makers (2012–2014)

Company	Coefficient of sales share variation for each company [%]
1. Toyota Group	1.23
2. Volkswagen Group	1.25
3. GM	2.14
4. Renault-Nissan	0.51
5. Hyundai-Kia	0.54
6. Ford	2.40
7. FCA	1.58
8. Honda	4.32
9. PSA	1.32
10. Suzuki	1.40

Calculated according to the data of[4].

Average coefficient of variation is 1.7% for the three-year period and the market share was actually untouched. Accordingly, the authors of this approach believe that the competitive power of the above companies has not changed. It is our opinion that application of the market share indicator does not allow us to evaluate the competitive power as a dynamic process of change of competitive advantages of a firm due to a single reason. Under the conditions of broad goods diversification of the released product, information about the production and sales volumes and product portfolio code details are required to apply such indicator in view of each industry. It is obvious that lack of access to such database makes it difficult to adequately apply the indicator (market share) for competitive power evaluation.

Another approach to evaluating competitive power of a firm is oriented on indicators of qualitative and pricing parameters of the output product (parametric methods are typically used). Comparison is done traditionally according to specifications of a reference product or products of nearest competitors. The European Management Forum evaluates firm's competitive power based on the actual potential of designing, manufacturing and marketing products that are most attractive to the customer by their specification (price and quality), as compared to competitors. Focus is not so rarely shifted from company's competitive power overall to merchandising and marketing properties of goods[5].

Approaches that rely on firm's processes actualize evaluation of performance, management and market promotion all, however, being a set of tools that ensure optimum utilization of resources.

A combined approach with competitive power evaluation to be carried out for various aspects at the same time: Goods properties, financial state, sales, after-sales service and a system of cooperation of the company with interested groups, etc[6].

We believe that the resource-oriented approach provides the broadest opportunities for evaluating competitive power and a structure and specifics of the applied combinations of production factors as a condition for ensuring company's success are the subject matter of the analysis according to such approach. Heterogeneity and uniqueness of certain resources of a company are capable of providing the company with more effective technologies, product specification, as compared with its competitors, which cumulatively turn into sources of enhancing the competitive power at the industry-based market.

While analyzing the resources, the researches apply, within factors of competitive advantages of a company, a method of disaggregation of traditional types of resources for the purpose of discovering specifics that contribute to the strategical and tactical success of the company and its competitive power as a result. The concept of a Valuable, Rare, Inimitable and Non-Substitutable resource (VRIN) that focuses on basic properties of the resources that are required for competitive advantages of a company is interesting to that matter[7]. Valuable resources for bringing value include a resource that is hard to reproduce or replace and such resource is considered a condition of creating and maintaining a competitive advantage of the firm.

With regard to labor resources that are used by a firm, it was suggested to emphasize core competencies of company's efficiency[8]. These competencies are discussed as standard operation procedures of fulfilling professional functions. The idea of this approach is the unique capability of the firm to utilize its labor resource, concentrate such resource on high-priority activity, select optimum resource conjugation, based on the principle of their mutual supplementation and a potential of competitive advantages will be created this way.

There is an interesting approach that considers knowledge to be a firm's resource[9]. Resource optimization and efficiency gain require knowledge generation and application. Companies that have the possibility of obtaining, storing, accumulating, integrating and applying large scope of knowledge compete more successfully at the market and adapt to new conditions faster.

Application of managerial initiatives as a business resource aiming at developing competitive advantages of companies is an alternative approach. For example, the following indicators are included in the evaluation scale in the research[10] into enhancing labor resource management system efficiency in the interest of stimulating production efficiency: Degree of satisfaction of the officers with the existing management system; time spent for personnel training; degree of involvement of the employees in production modernization programs. We believe, a similar approach is provided by[11] who attaches great importance to the competitive potential, in particular to managerial measures and manager evaluations, firm's actions to improve efficiency. The following are referred to as the most important factors of the competitive potential: Qualification of the management, firm's image, knowledge of customers' needs, quality of product and technological innovations.

3. Methodology

A methodical approach that is suggested by the authors is based on application of firm's resource disaggregation into production, finance and investment resources; at the same time, evaluation of utilization of such resources is conducted statically and dynamically. A model of competitive power evaluation that is suggested thus focuses on the use of resources that are available to the firm as a source of its competitive advantages. Evaluation of companies of a certain industry and evaluation of industries to follow may serve as the basis for rating and developing an objective mechanism for program-oriented allocation of budgetary funds. The following indicators that are systematized by block are taken as core indicators (see Table 2).

The resource pool is divided into blocks (accordingly production, financial and investment) and three consolidated indicators, each of which is based on indicators of the corresponding block are marked out.

The first block of indicators (production indicators – K_p) allows us to evaluate the result of use of actual factors - fixed assets, material and labor resources and production cost. The second block gives us an idea of utilization of financial resources *(K_p)*. A high-liquidity company that controls borrowings has a higher probability of keeping stable due to the possibility of additional attraction of financial resources from the capital market. Inclusion of a profitability indicator in the evaluation block of financial resources is determined by the informative function

Table 2. Indicators of firm's competitive power evaluation

Indicators	Designation	Definition (calculation) of indicator
1. Indicators of utilization of production resources	K_P	-
1.1. cost per 1 RUB of sales	k1	cost of production / revenue
1.2. return on materials	k2	revenue / material costs
1.3. return on funds	k3	revenue / fixed assets
1.4 return on 1 RUB of remuneration	k4	revenue / remuneration fund
2. Indicators of utilization of financial resources	K_F	-
2.1. rate of turn-over of current assets	k5	revenue / current assets
2.2. coefficient of day-to-day liquidity	k6	current assets / current liabilities
2.3. equity ratio	k7	equity capital / assets
2.4. profitability of an enterprise	k8	profit / assets
3. Indicators of utilization of investment resources	K_I	-
3.1. investment to revenue ratio	k9	investment / revenue
3.2. cost of technological innovation to revenue ratio	k10	cost technological innovation / revenue
3.3. share of innovation product in total revenue volume	k11	innovation product / revenue

of such indicator, in particular it reflects a benefit from active resource utilization operations.

The third block comprises indicators that characterize utilization of firm's investment resources (K_I) and it is associated with evaluation of investment in technological innovations, production of innovative goods and analysis of a share of R&D in the investment.

The authors provided a model of integral evaluation of competitive power of companies that allows for building an industry-based rating of companies, based on their findings. Arguments for reasonable application of the above set of indicators for evaluating competitive power of a company are the following:

- It is obvious from the theory of firm that the company chooses a combination of factors to minimize production cost against the given release. In other words, it forms the unique combination of resources and becomes a holder of rent from the use of limited resources with higher return based on specific production techniques and due to an individual function of cost. We believe that competitive powers may be considered as gaining an extra profit from the unique and individual combination of resources that are used for production.
- Research that confirms the dependence of cost of R&D and economic performance of a firm allows for including the indicators (cost of technological innovation to revenue ratio and share of innovation product in total revenue volume) in the integral indicator of company's competitive power. According to the research done by[12] and[13], the capital for R&D effects mostly firm's productivity and return on cost of R&D exceeds return on investment to financial assets. Investment into physical assets and discovery of new technologies is a source of economic growth of a firm and change of its competitive positions at the market.
- A firm determines a financial structure that is acceptable for such firm, while making investment decisions. Via such indicators as equity capital to borrowings ratio the company informs any potential investors about any potential financial risk and cost of attracted resources. Structural parameters used financial resources serve as a condition for implementing overall technical, marketing and strategical innovations. Application of a financial leverage indicator in models of achievable growth[14,15] proves conclusively the necessity of considering this indicator and the importance of the amount of ploughed-back profits for firm's development. Aside from the above, financial capacity development requires operational control over firm's liquidity (the higher the liquidity, the more opportunities for attracting extra capital). Therefore, inclusion of the liquidity ratio, financial leverage and return on assets in the suggested model of evaluation

of competitive power of a firm seems justified and reasonable.

Evaluation of competitive power of companies comprises the following consecutive stages:

- Calculating individual indicators to evaluate consolidated indicators for each of three groups of resources (production, financial, investment - K_P, K_F, K_I).
- Inverse values were used for the purpose of unidirectional effect of such indicators (this is applied to the indicators that characterize improved firm's portfolio, e.g. indicator of cost per 1 RUB of sales).
- All indicators are standardized, i.e. individual indicators values are determined with regard to the mean industry value, which allows for ranging individual and consolidated indicators of firm's competitive power, discover reserves, compare and identify perspectives.
- Consolidated indicators are determined according to multiplicative models where individual indicators serve as multipliers:
  - For the group of production resources - $K_P = k1 \times k2 \times k3 \times k4$;
  - For the group of financial resources - $K_F = k5 \times k6 \times k7 \times k8$; and
  - For the group of investment resources - $K_I = k9 \times k10 \times k11$;
- The ultimate integral indicator of firm's competitive power is calculated according to the multiplicative model as follows:

$$K_K = K_P \times K_F \times K_I$$

We see the applied potential of evaluation of the integral indicator and consolidated group indicators, statically and dynamically in the ability of determining positive (negative) shifts in utilization of resources over a short and a long time.

The model that is suggested by the authors differs from the traditional approaches to firm's competitive power evaluation by the following: 1. A set of functional objective indicators is used that characterizes the efficient utilization of resources (expert evaluations are not used); 2, Open statistical data that are published by global governmental statistical services are used; 3. The suggested competitive power evaluation technique may be applied to an individual firm as well as an industry as a whole and it does not require any additional statistics or significant time.

4. Results and Discussion

The suggested technique of competitive power evaluation was appraised using a processing industry (*Vehicle and equipment production sub-industry*) of the RF as an example. Initial individual indicators and standardized values of such indicators as well as consolidated indicators by resource groups are given in Table 3.

The final model of evaluation of competitive power of companies (integral indicator) is given in Table 4.

Analytical features of the suggested multiplicative model of evaluation of competitive power of companies are the following:

- Being able to identify positions of companies that are ranked the highest (lowest) in the industry, accordingly, focusing on the effective utilization of resources of each type;
- Determining dynamics of consolidated resource indicators and the integral indicator of competitive power of a firm to determine the effect of internal and external conditions, their impact on position change of the firm and industry as a whole over the short and long time.

Thus, analysis of the integral competitive power indicator for the RF processing industry (*Vehicle and equipment production* sub-industry) showed that utilization of production resources is characterized by lower indicators than for the processing industry as a whole (accordingly, 0.69<1). Basic growth rates for the utilization of production resources (K_P) tend to slow down (see Table 5).

The reasons for this 7% fall of the consolidated indicator of utilization of production resources may be associated with production and labor management issues, decline in effective utilization of production resources of companies. The consolidated indicator of utilization of production resources shows positive trend (average growth rate was 38%), however, the degree of utilization of such resources demonstrates the sub-industry lagging behind the processing industry as a whole (14% of the basic level of the processing industry - 0.14<1). The necessity of closer attention to be paid to improving quality of management of financial resources of companies in this sub-industry is obvious.

The situation with utilization of investment resources is essentially different: The consolidated indicator increased five times on the average and exceeds the exact same indicator of the national processing industry

Table 3. Individual resource utilization indicators of the *Vehicle and equipment production* sub-industry

Indicator	2011		2012		2013	
	Overall processing industry	Vehicle and equipment production	Overall processing industry	Vehicle and equipment production	Overall processing industry	Vehicle and equipment production
Indicators of utilization of production resources (K_P)						
cost per 1 RUB of sales (k1)	0.868	0.945*[*] 0.92[**]	0.893	0.947[*] 0.9430[**]	0.912	0.956*[*] 0.954[**]
return on materials (k2)	1.66	1.53 0.92	1.63	1.46 0.896	1.78	1.56 0.876
return on funds (k3)	3.40	3.87 1.138	3.48	4.11 1.181	3.26	3.81 1.169
return on 1 RUB of remuneration (k4)	12.62	9.39 0.744	12.04	8.38 0.70	13.18	9.00 0.683
Consolidated indicator of utilization of production resources	K_P	0.7166		0.6985		0.6672 0.6941).
Indicators of utilization of financial resources						
rate of turn-over of current assets (k5)	1.79	1.29 0.721	1.89	1.41 0.746	1.85	1.32 0.714
coefficient of day-to-day liquidity (k6)	1.456	1.304 0.896	1.419	1.369 0.965	1.312	1.374 1.047
equity ratio (k7)	0.416	0.242 0.582	0.408	0.264 0.647	0.366	0.241 0.658
profitability of an enterprise (k8)	0.084	0.021 0.250	0.081	0.028 0.346	0.044	0.016 0.364
Consolidated indicator of utilization of financial resources	K_F	0.0939		0.1612		0.1790 0.1447[***]
Indicators of utilization of investment resources (K_I)						
investment to revenue ratio (k9)	15.37	22.05 1.435	15.64	21.72 1.389	15.10	19.02 1.2596
technological innovation expenses to revenue ration (k10)	0.0166	0.0162 0.976	0.004	0.0197 4.925	0.004	0.029 7.250
share of innovation product in total revenue volume (k11)	0.068	0.189 2.779	0.096	0.262 2.729	0.116	0.281 2.422
Consolidated indicator of utilization of investment resources	K_I	3.892		18.669		22.118 14.893[***]

[*] – value of the indicator
[**] – standardized values of the indicator
[***] – average value of the indicator over three years
Calculated according to the data of the Russian Annual Finance Abstract of Statistics[16]and Russian Annual Abstract of Statistics[17]

Table 4. Competitive power of *Vehicle and equipment production sub-industry* of the RF processing industry

Integral indicator of competitive power (KK)			
Year	**2011**	**2012**	**2013**
(K_K)	$K_K = 0.7166 \times 0.0939 \times 3.892 = 0.2619$	$K_K = 0.6985 \times 0.1612 \times 18.669 = 2.1021$	$K_K = 0.6672 \times 0.1790 \times 22.118 = 2.6415$

Table 5. Rates of growth of consolidated resource utilization indicators

Rates of growth of consolidated resource utilization indicators [%]	**2011**	**2011–2012**	**2011–2013**
for production resources	100	97.5	93.1
for financial resources	100	171.7	190.6
for investment resources	100	480	568

Table 6. Manufacture of passenger aircrafts by leading global companies (2013)

Indicator	**Boeing (US)**	**Airbus (EU)**	**Bombardier (Canada)**	**Embraer (Brazil)**	**ATR (EU)**	**UAC (RF)**	**Other**	**Total**
Number of aircrafts [items]	648	626	238	209	74	32	495	2322
Company share [%]	27.9	27.3	10.2	9.0	3.2	1.4	21.3	100

Calculated according to the data of the 2013 Annual statement of the United Aircraft Corporation[18]

(14.90>1). This is indicative of activation of investment and innovation activity of companies of the sub-industry as compared to the processes in the industry as a whole.

We believe that a drastic change in the indicator of utilization of investment resources is due to active innovation policy of such aviation companies as the United Aircraft Corporation[18] and Russian Helicopters[19]. An innovation industry development program made it possible for the UAC and Russian Helicopters to activate implementation of aircraft modernization projects, based on technology improvement, application of progressive business processes, increasing quality-related parameters of their product. Upgrading the production facilities and development of the quality management system allowed for increasing output and export of civil and military aircrafts. Data for the main aircraft suppliers at the global market are given in Table 6.

US, Canadian and Brazilian companies produced 74.1% of total global production volume of civil aircrafts in 2013. Russia increased production of civil aircrafts for two years by 4.6 times (from 7 items in 2013 to 32 items in 2011). Companies of the Russian Helicopters holding increased their capital expenses for implementation of innovation projects by 24.6%, total capital expenses will be up to 4% of holding's revenue in the mid-term for the purpose of capacity building[18,20,21].

A modified (dynamic) version of the provided model of competitive power evaluation of companies also has analytical features, which is presented as a multiplication of the basic competitive power (K_{K0}) and basic growth rates of the consolidated indicators that characterize utilization of production, financial and investment resources. This model alternative focuses on the dynamics of resource parameters: $K_K = K_{K0} \times G_{KP} \times G_{KF} \times G_{KI.}$

Annual competitive power monitoring, using a modified model, will allow for identifying any shifts in competitive resource advantages of firms.

5. Conclusion

Application of the suggested method of evaluation of competitive power of companies allows us to do the following: 1. Monitor competitive positions of companies, as well as industries; 2. Determine the effect of internal, industry-based and external conditions on the dynamics

of the degree of competitive power; 3. Provide a rating of competitive powers of industries and firms and enhance transparency of the business-community as to allocation of market success of national companies within similar industries of the global economy; 4. Implement a mechanism of governmental support of best companies according to a competition subject to competitive power ratings. Practice of regular competitions is well used in the developed countries, while the RF is still importing this experience. Industry-based associations (e.g. in construction industry in Russia) initiated competitions of this type, however, information and evaluation mechanisms are closed by bureaucratic regulations.

Under the macroeconomic instability, necessity of enhancing competitive power of national companies in the interest of stimulating import phase out (a provision about control of competitive power of national companies was incorporated in the *National Export Strategy of the RF up to 2030)*, the importance of monitoring efficiency and competitive power is rising, which is ensured among other things by expanding theoretical and methodical approaches to development of applied recommendations.

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